



# **Update from the Kansas Health Policy Authority: Impact of FY 2010 Budget Decisions**

**Joint Committee on Health Policy Oversight  
June 12, 2009**

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# Brief Update on Agency Activities



# KHPA Accomplishments for 2008-9

- Completed 2008 Medicaid Transformation Process to Reform Kansas Medicaid
  - 14 reviews completed; 12 additional reviews underway in 2009
  - Identified \$millions in ongoing savings to Medicaid
- Developed Medical Home Model of Delivery
  - Creating incentives for payment reform to promote improved health outcomes and lower health care costs
- Improved Payments for Hospitals that Treat Low-Income Patients
  - Reforms to the Disproportionate Share Hospital (DSH) payment method
  - Increased funding for graduate medical education in underserved areas
- Provided Wellness Programs for State Employees
  - More than 76,000 employees/dependents eligible to participate
- Expanded web-based services for beneficiaries
- Maximized value of Federal stimulus dollars for Kansas
  - Policy input helped inform Congressional debate that improved funding formula for Kansas



# Medicaid Transformation: Savings Estimates for FY 2010

<u>Savings included in KHPA Medicaid Caseload</u>	<u>SGF</u>	<u>All Funds</u>
Expand PDL w/mental health	0	0
Time Limit MediKan to 18 months (reduced resource item)	- \$11,700,000	-\$11,700,000
Pharmacy changes* (cost reimbursement for physician office administered drugs; improved cost avoidance; updated list of maximum prices; improved enforcement of third-party liability)	-4,400,000	-11,000,000
Automatic prior authorization	-300,000	-750,000
Ensure Medicare hospital payments	-2,820,000	-7,050,000
Home health reforms	-120,000	-240,000
Durable medical equipment reforms	-160,000	-400,000
Transportation broker	-200,000	-500,000
Restrictions to hospice payments	-300,000	-750,000
 Total Estimated Savings	 - \$20,000,000	 -\$32,390,000

\*Implemented during FY 2009. Preliminary results suggest higher overall savings.



# Medicaid Transformation: Update on 2008 Recommendations

- Home Health Reforms
  - Policies to be implemented in October to require prior authorization of services, limit acute care visits
- Durable Medical Equipment
  - Require DME suppliers to show actual cost; reimbursement not to exceed 135% of cost
- Transportation Brokerage
  - Issued an RFP for a transportation broker. Currently in the procurement and negotiation process.
- Hospice Services
  - Tighten payment rules by clarifying vague language in the provider manual



# Medicaid Transformation: Update on 2008 Recommendations

- Automate and expand pharmacy prior authorization
  - Implementation has begun with the first group of drugs added in March 2009
  - Implementation of (market-based) maximum allowable cost pricing continues with addition policy changes to be effective October 2009.
- Manage Medicaid Mental Health Pharmaceuticals through expanded preferred drug list
  - Legislative proviso prevents implementation of safety and pricing recommendations
- Transportation Brokerage
  - Issued an RFP for a transportation broker. Currently in the last stages of procurement and negotiation.



# Medicaid Transformation: Ongoing 2009 Reviews

- Eligibility
- Federally Qualified Health Centers/Rural Health Clinics (*KDHE*)
- Family planning
- HealthConnect
- HealthWave
- Medicaid operations
- Mental health (*SRS*)
- Monitoring quality
- Prior authorizations for services provided out-of-state
- Physicians
- School-based services
- Therapy services

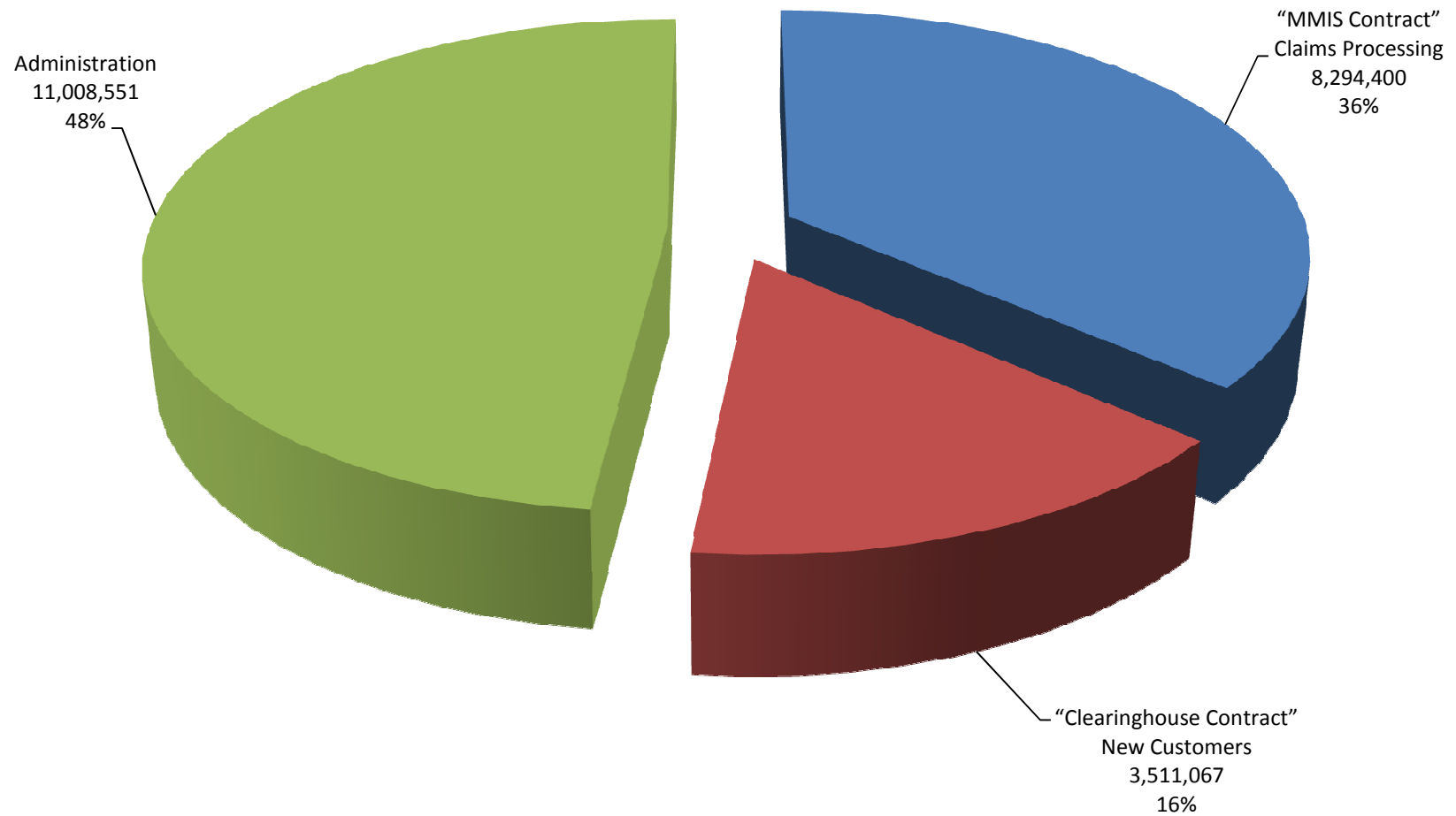


# Summary of FY 2010 Budget Decisions

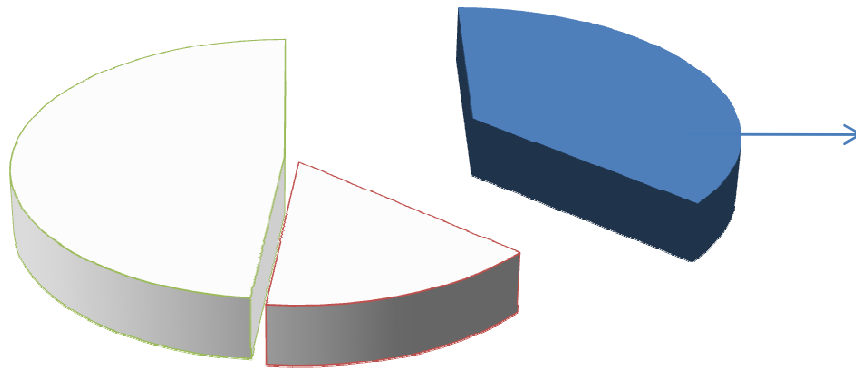
# Brief Overview of KHPA's Budget

- **KHPA's FY 2009 budget was about \$2.6 Billion**
  - \$1.36 billion is non-SGF funding for KHPA medical programs
  - \$0.8 billion is federal funds passed through to other Medicaid service agencies (SRS, KDOA, JJA, KDHE)
  - \$0.46 billion is SGF funding for services and operations
- **KHPA programs and operations are funded separately**
  - FY 2009 operational funding was \$23 million SGF
  - Caseload costs are about 20 times larger than operational costs
  - Caseload savings cannot be credited to cost-saving operations
  - The federal government matches Medicaid operations at 50-90%
  - Operational costs for the state employee plan are funded off-budget
- **KHPA budget reductions concentrated on operations**
  - Medicaid caseload protected due to Federal stimulus dollars
  - KHPA operations reduced 15.5% versus FY 2009

**KHPA Operational Budget**  
**Base = FY 2009 Budget: \$22,814,018 (SGF)**

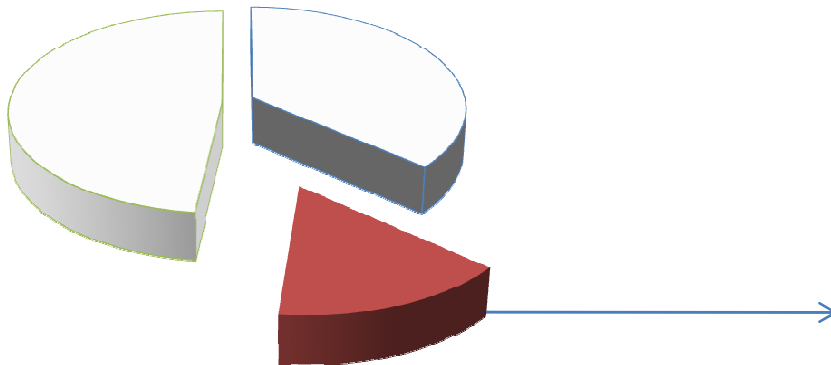


## KHPA Functions at a Glance: Claims Processing (\$8.3 Million)



- Medicaid Management Information System (MMIS) - federal mandate: data processing system that manages claims and payments; assures compliance with state plan
- Surveillance Utilization Review Subsystem (SURS) - federal mandate: identifies waste, fraud and abuse
- Payment Error Rate Measurement (PERM) – federal mandate; assures program integrity
- Customer and Provider Service Call Centers: answer calls from providers, beneficiaries with billing, eligibility and other questions.
- FY 2009: Processing avg. 1.5 million claims per month
- Disbursing avg. \$197 million per month in payments to providers
- Call Centers handling 21,127 incoming calls per month
- Outsourced to independent contractor
- Most costs fixed: volume-based contract

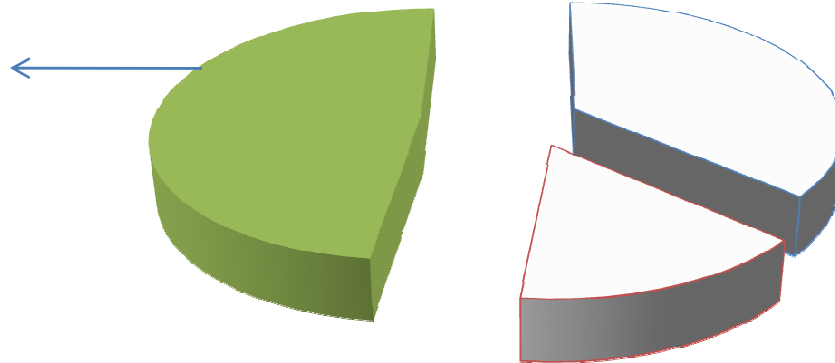
## KHPA Functions at a Glance: Clearinghouse (\$3.5 Million)



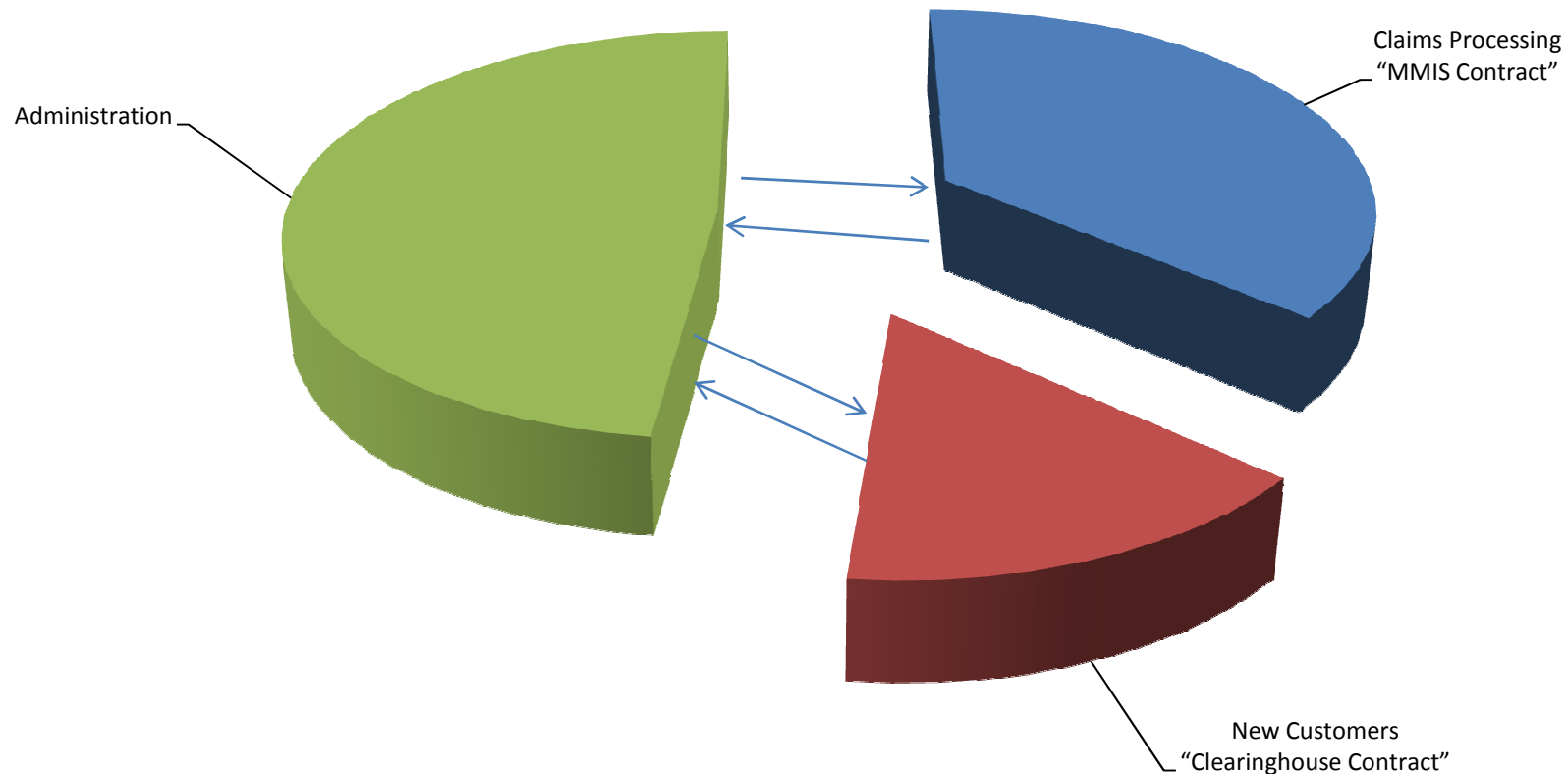
- Processes Medicaid and SCHIP applications for coverage: federal mandate to process an application within 45 days
- Similar to a “sales” department in private sector
- Issues new policies
- Screens applicants for eligibility
- Unified application process: One application for family; screens for all eligible services
- Workload fluctuates with economy
- Majority of work outsourced
- FY 2009 – Receiving an average of 10,736 applications and reviews per-month
- ***Backlog of applications already growing as economy worsens***

## KHPA Functions at a Glance: Administration (\$11 Million)

- Finance and Operations: budget; accounting; financial reports; purchasing
- In-house eligibility and claims processing (required by federal law)
- Actuarial Analysis: data evaluation; risk assessment; long-range planning
- Program management: quality improvement; risk management; cost control
- Human Resources
- Information Technology
- Legal Services
- Governmental and Stakeholder Relations
- Communications/Public Relations
- Physical Plant: rent; utilities; equipment; supplies



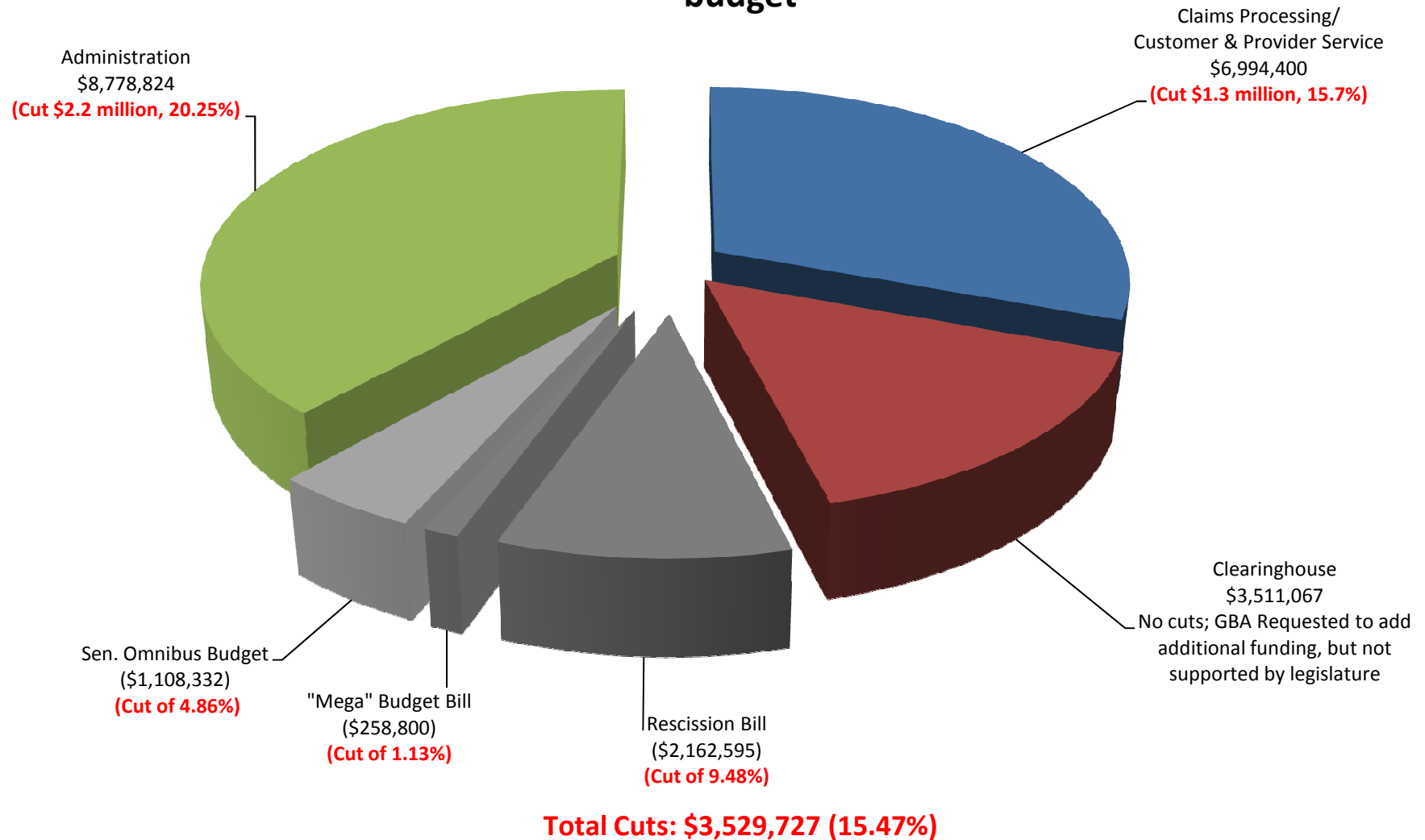
## KHPA: Agency Function Interaction



Only portions of Claims Processing and Clearinghouse functions are outsourced. Federal law requires significant involvement/oversight by KHPA staff (for example, final eligibility determination for Medicaid/SCHIP must be made by a state employee, not by a contractor) .

# KHPA Operational Budget

## Distribution of FY 2010 Budget Cuts as compared to approved base budget



# Potential Impact of Operational Cuts

- **As many as 30,000 to 50,000 People with Delayed Medicaid/SCHIP Applications by December 2009**
  - \$25 - \$30 Million in uncompensated or foregone medical care, delayed payments
  - \$15 - \$20 Million in foregone federal funding
  - Needed medical care delayed; negative health outcomes
  - Compliance with 45-day limit for eligibility processing at risk
- **Approximately 40% Cut in Customer and Provider Service**
  - Affects 20,000+ Medicaid providers' ability to ensure access for their patients; receive prompt payment for services
  - Immediate delays in pharmacy care
  - 300,000 beneficiaries lose resource to resolve eligibility, coverage questions
  - Increase customer service demand on SRS, Aging, JJA
- **Staff Layoffs: 13 positions (beginning July 2010)**
  - Another 30+ funded positions held open or eliminated with turnover
  - Cumulative reduction in staffing of 15%
- **KHPA staff will be working to minimize the impact of reductions**
  - Meet regularly with the Medicaid community to identify additional efficiencies and new approaches
  - Continue to scrutinize operational funds to identify new resources
- **Medicaid stimulus funding for Kansas was used to protect Medicaid services and provide state fiscal relief, but stimulus funds were not used to protect Medicaid operations**
  - Federal stimulus dollars for Medicaid prevented cuts to Medicaid caseloads but fewer State General Funds were then provided to keep Medicaid operations whole



# Adjusting to New Targets

# **Circumstances differ dramatically from those facing KHPA at its inception in 2006**

- **New economy**
  - Immediate reductions in funding for KHPA operations
  - Reductions possible in operations and services in FY 2010
  - Large structural deficit that grows substantially with expiration of Federal stimulus dollars in 2011
- **New state leaders**
  - Transition in KHPA leadership
  - Transition in statehouse since KHPA's founding
- **New federal administration**
  - New President focused on quickly advancing major health care reforms
  - Former Governor Sebelius in position of national leadership
  - Reform options encompass much of KHPA's health policy agenda



# Summary of Agency Response to FY 2010 Budget Shortfall

- **Reduced internal operational costs by \$2.2 million SGF**
  - Eliminated contracts not directly related to program operation
  - Cumulative staff reductions of 15%
  - Eliminated policy division
  - Reduced executive positions from 5 to 4, eliminating more than 20% of executive salaries
- **Reduced contract operations by \$1.3 million SGF**
- **Will review agency's structure and focus with KHPA Board June 16-17**
  - Re-assign resources to core program operations
  - Maintain efforts to identify savings and efficiencies in program costs
  - Extend focus on data driven efficiency to all KHPA programs
  - Review organizational structure to emphasize efficiency and accountability
  - Revisit policy, communications, and outreach efforts



## Next steps

- KHPA Board retreat June 16-17
- Solicit legislative input on Agency priorities
- Prepare for future budget discussions
  - Acknowledge the size and importance of the state's deficit
  - Engage with policymakers, solicit their input, and help them set a future course



<http://www.khpa.ks.gov/>